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Message Text

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61
ORIGIN NEA-16

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FPC-01

H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 FEA-02 PA-04 PRS-01 USIA-15 IO-14 /244 R

DRAFTED BY NEA/P:MHVAN ORDER
APPROVED BY NEA/P;MHVAN ORDER
S/PRS - MR. KING (INFO)
H - MISS FOLGER (INFO)
EUR/P - MR. SAVAGE
EA/P - MR. ROSEN
EB/L - MR. HAND (INFO)
ARA/P - MR. BELL
AF/P - MR. POPE
---------- 061946
R 191716Z JUL 74
FM SECSTATE WASHDC
TO USINT ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY CAIRO
AMEMBASSY TRIPOLI
AMEMBASSY JAKARTA
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
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AMEMBASSY DUBLIN

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AMEMBASSY TOKYO
USMISSION EC BRUSSELS
AMEMBASSY LAGOS

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E.O. 11652: N/A
TAGS: ENRG
SUBJECT: PRESS BRIEFING ON KUWAIT BUY-BACK PRICES

REF: STATE 155876

FOLLOWING DEPARTMENT SPOKESMAN'S ANNOUNCEMENT REFTEL, DEPUTY ASSISTANT SECRETARY KATZ REPLIED TO QUESTIONS AS FOLLOWS:

QUOTE: Q. WHAT IS THE POSTED PRICE NOW?

A. THE POSTED PRICE IS $11.65 FOR A STANDARD QUALITY, WHICH IS ARABIAN LIGHT, FOB AT THE GULF.

Q. WHAT IS THE CURRENT BUY-BACK PRICE?

A. PER BARREL.

Q. WHAT IS THE BUY-BACK PRICE, THEN?

A. YOU MEAN WHAT DOES IT MEAN?

Q. NO. YOU GAVE US THE POSTED PRICE. WHAT IS THE BUY-BACK PRICE?

A. IT HAS BEEN RUNNING AT AROUND 93 PERCENT. BUT THERE

ARE LARGE TRANSACTIONS WHICH HAVE NOT YET BEEN AGREED. FOR EXAMPLE, ARAMCO HAS NOT AGREED YET WITH SAUDI ARABIA ON WHAT THE BUY-BACK PRICE SHALL BE FROM JANUARY 1 OF THIS YEAR. THE ASSUMPTION IS THAT IT IS 93 PERCENT. BUT THAT HAS NEVER BEEN FORMALLY --
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Q. OF THE POSTED PRICE.

A. OF THE POSTED PRICE. YOU KNOW -- POSTED PRICE IS SOMEWHAT FICTITIOUS. IT IS A BASE FROM WHICH TAXES AND GOVERNMENT TAKE IS CALCULATED. AND THEY HAVE SINCE OCTOBER FALLEN INTO THE HABIT OF BASING THIS BUY-BACK PRICE ON SOME PERCENTAGE OF POSTED PRICE.

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Q. THE DIFFERENCE IS --

A. WELL, I CAN'T GIVE YOU THE ACTUAL NUMBERS AT THIS POINT. BUT THE POINT THAT WE WANT TO MAKE IS THAT IT IS ABOVE 93 PERCENT, AND IN THAT SENSE A KIND OF BREAKTHROUGH.

Q. WHEN YOU SAY IT IS SLIGHTLY ABOVE --

A. ONE OR TWO PERCENT.

Q. IT COULD BE ONE OR TWO PERCENT.

A. POINTS.

Q. TENTHS?

A. YES.

Q. TENTHS OF A PERCENT.

Q. YOU ARE TALKING ABOUT --

A. JUST ADD TO 93 ONE OR TWO -- I'M SORRY. 93, 94, 95.

Q. PERCENTAGE POINTS.

A. PERCENTAGE POINTS.

Q. YOU ARE CONCERNED ABOUT THE PRECEDENT?

A. YES. WHAT WE HAVE HAD OVER THE LAST SEVERAL YEARS IS A KIND OF RATCHET EFFECT, WHERE ONE COUNTRY MAKES A MOVE,
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AND THEN THAT PROVIDES A NEW FLOOR FROM WHICH OTHER INCREASES TAKE PLACE. AND 93 PERCENT, AS I SAY, HAS COME TO BE REGARDED AS KIND OF A PATTERN. IT IS STILL AN OPEN

QUESTION IN SOME COUNTRIES. BUT NOW HERE IS A JUMP OVER 93 PERCENT. AND IN THAT SENSE, IT IS A NEGATIVE DEVELOP-MENT.

Q. IS YOUR CONCERN THAT THIS WOULD INCREASE PRICES HERE, OR THAT IT WOULD PREVENT PRICES FROM -- THERE SEEMS TO BE SOME FEELING THERE IS A NATURAL INCLINATION OF THE PRICE TO GO DOWN SLIGHTLY IN THE NEXT FEW MONTHS.

A. WELL, YES. THERE ARE CONFLICTING EVIDENCES. AS YOU PROBABLY KNOW, THERE IS AN EVIDENT SURPLUS IN THE MARKET

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AT PRESENT PRICES. THAT IS, THERE IS MORE OIL THAN PEOPLE ARE WILLING TO BUY AT PRESENT PRICES. THIS HAS BEEN REFLECTED IN STOCKS BEING FILLED UP EVERYWHERE IN THE WORLD, SOME EROSION OF PRODUCT PRICES. WHAT WE ARE TALKING NOW IS CRUDE PRICES, OF COURSE. AND THE AUCTIONS ARE WELL OFF. THAT IS, WHERE AUCTIONS HAVE BEEN HELD, THEY HAVE NOT BEEN PAYING THE KIND OF PRICES THEY WERE EARLIER IN THE YEAR.

NOW, THIS DEVELOPMENT COMES IN, AN EFFORT BY KUWAIT TO PEG THE PRICE AT A HIGHER LEVEL, NOTWITHSTANDTNG THESE MARKET FORCES. AND WHERE IT WILL SETTLE, ISN'T CLEAR. BUT THIS IS HARDLY A FREE MARKET.

Q. THE BUY-BACK PRICE IS THE PRICE THAT AN IMPORTER ACTUALLY PAYS FOR A BARREL OF CRUDE.

A. NO. THE PREVIOUS ARRANGEMENTS WERE 100 PERCENT EQUITY OWNERSHIP BY CONCESSIONAIRES. THE KUWAIT OIL COMPANY WAS OWNED BY GULF 50 PERCENT AND BP 50 PERCENT. THEY WERE FORCED TO GIVE UP 60 PERCENT. SO EACH OF THE TWO FOREIGN COMPANIES NOW HAVE A 20 PERCENT SHARE. AND BUY-BACK IS A REFERENCE TO THE OIL THAT THEY USED TO -- WHAT THEY STILL PRODUCE AS AN OPERATOR, BUT THEY NO LONGER EARN -- I'M SORRY -- THEY NO LONGER OWN. AND IT IS THE PRICE THEY HAVE TO PAY FOR OIL WHICH IS NOT THEIR EQUITY
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SHARE.

Q. DO YOU EXPECT THIS TO BE REFLECTED IN INCREASED PRICES TO AMERICAN CONSUMERS?

A. NO, I WOULDN'T SAY THAT, BECAUSE WHAT GOES INTO THAT PRICE IS A GREAT COMPLEX OF DIFFERENT PRICES. YOU KNOW, MOST OF OUR DOMESTIC PRODUCTION IS CONTROLLED AT OVER $5 A BARREL. NEW PRODUCTION IN THE UNITED STATES IS UNCONTROLLED. FORTY PERCENT OF SOME CONCESSIONS ARE STILL EQUITY, AND THEY PAY THE EQUIVALENT OF TAXES. AND THEN THERE IS OIL THAT IS OWNED BY PRODUCING GOVERNMENTS. SO

THERE IS A GREAT JUMBLE OF PRICES IN THE WORLD. AND IT IS PRETTY HARD TO SAY HOW THIS WILL BE REFLECTED AT THE GAS PUMP. THE POINT IS THAT FROM THE POINT OF VIEW OF THE WORLD ECONOMY, IT IS ANOTHER -- IT IS MORE ADDED TO THE PRICE OF CRUDE OIL. IT WILL PULL UP THE AVERAGE BY SOME AMOUNT.

Q. CAN YOU GIVE US AN IDEA OF THE VOLUME THAT IS GOING TO BE AFFECTED BY THE INCREASED PRICE?

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A. WELL, I CAN'T GIVE IT TO YOU EXACTLY, BUT THE KUWAIT GOVERNMENT PUT UP FOR AUCTION A MILLION-AND-A-QUARTER BARRELS IN LATE JUNE. REPORTEDLY THEY HAVE SOLD HALF OF THEIR -- THEY HAVE NEGOTIATED SALES FOR HALF OF THAT. THEY DIDN'T GET BIDS AT THE AUCTION, INCIDENTALLY, WHICH WERE ANYWHERE CLOSE TO THIS. BUT THEY HAVE PERSUADED PEOPLE TO TAKE HALF OF THAT. SO THAT WOULD LEAVE ABOUT 600,000 BARRELS, PRESUMABLY.

Q. SINCE BILL SIMON IS IN THE AREA, HAS THIS COME UP IN ANY DISCUSSIONS THAT HE HAS HAD WITH KUWAIT OFFICIALS?

A. WELL, HE HASN'T BEEN THERE YET. HE WILL BE THERE ON SUNDAY.

Q. ARE YOU FAMILIAR ENOUGH WITH ALL THE DETAILS OF THIS TO BE ABLE TO SAY WHETHER BP AND GULF HAD NO ALTERNATIVE BUT TO AGREE TO THIS INCREASED PRICE? IN OTHER WORDS, LIMITED OFFICIAL USE

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WHOSE FAULT IS IT? IS IT THEIRS OR KUWAIT'S? NATURALLY KUWAIT WANTS MORE, I SUPPOSE.

A. I DON'T THINK THEY WERE OVERJOYED.

Q. BUT COULD THEY HAVE RESISTED IT SUCCESSFULLY?

A. I DON'T THINK I CAN MAKE THAT JUDGMENT.

Q. NOBODY WAS BIDDING. IT WAS EARLIER THIS YEAR, WASN'T IT?

A. WELL, THIS RECENT AUCTION WAS LATE JUNE.

Q. YES, BUT THE ORIGINAL AUCTION WHICH WAS SIX MONTHS AGO, NOBODY WAS BIDDING.

A. NO, IT DOESN'T GO BACK THAT FAR. THERE WAS NO SORRY, THAT FAR BACK. I DON'T BELIEVE KUWAIT -- YES, I'M SORRY, YOU ARE RIGHT. KUWAIT DID HAVE AN AUCTION EARLIER IN THE YEAR, AND THEY DID MAKE SOME SALES AT THAT POINT. I DON'T

RECALL WHAT THE PRICES WERE. I THINK THEY WERE BELOW THE PEAK PRICES. YOU KNOW, IN DECEMBER AND JANUARY PEOPLE WERE BIDDING $17, $18, $22 A BARREL IN SOME CASES. AND OF COURSE THAT WAS IN A PANIC SITUATION. AND WE HAVE LONG SINCE BEEN OVER THAT. BUT WE ARE TALKING NOW ABOUT CHANGES OF LESS THAN A DOLLAR.

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Q. YOU GAVE A FIGURE OF 600,000 BARRELS.

A. BARRELS PER DAY. THAT'S A STANDARD MEASUREMENT.

Q. WHAT WAS THAT FIGURE FOR?

A. THAT IS PRESUMABLY THE AMOUNT THAT IS INVOLVED IN THIS AGREEMENT TO -- ON BUY-BACK. IN OTHER WORDS THAT IS ABOUT WHAT IS LEFT AFTER THE KUWAITIS HAVE SOLD TO OTHER PEOPLE. THIS IS WHAT IS PRESUMABLY AVAILABLE NOW TO GULF AND BP. END QUOTE.

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ALL OF MR. KATZ'S REPLIES WERE ON BACKGROUND. INGERSOLL

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Message Attributes

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